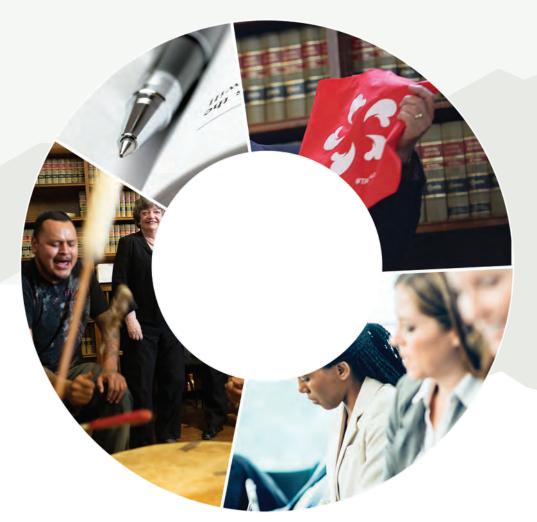
2014 Financial Statements



THE LAW SOCIETY OF UPPER CANADA 2014 ANNUAL REPORT

Financial Statements

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THE LAW SOCIETY OF UPPER CANADA ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Upper Canada's ("The Society") lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating surplus of \$2.6 million, approximately the same as in 2013. The 2014 budget for these two Funds projected a combined deficit of \$759,000 with the use of accumulated balances in the Funds so operating results are better than budgeted. Annual fees, professional development revenues, investment income and other revenues are above budget. Virtually all of the expense categories in the General Funds are less than budget, although there are some noteworthy negative variances in individual accounts discussed later in this document.

The Society's restricted funds are reporting a combined deficit of \$18.5 million in 2014 (2013 - \$1.3 million surplus). There are three primary reasons for the restricted funds deficit in 2014. The Lawyer Compensation Fund experienced an adverse claims experience, primarily from two large scale alleged defalcations, resulting in a deficit of \$10.2 million compared to a surplus of \$498,000 in 2013. Premium transfers to LAWPRO, anticipated in the insurance contract, resulted in a deficit in the Errors & Omissions Insurance Fund of \$5.2 million. Amortization in the Invested in Capital Assets Fund of \$3.6 million was the third significant contributor to the restricted funds deficit in the current year.

The approved 2014 budget included the transfer of \$6.0 million from the General Fund balance to the Capital Allocation Fund dedicated to the revitalization of the Society's information systems. This is included in the interfund transfers set out in the Schedule of Restricted Funds.

Statement of Revenues and Expenses and Change in Fund Balances

Revenues

Annual Fees

Total annual fee revenues have increased to \$73.2 million from \$70.8 million in 2013 primarily due to an increase in the number of lawyers and paralegals billed. Also, there were fluctuations in the individual fee components but the annual fee per lawyer increased by \$15 from 2013. The annual fee per paralegal was the same as 2013.

Insurance Premiums and Levies

The Errors & Omissions Insurance Fund ("the E&O Fund") accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies increased to \$104.4 million in 2014 from \$102.4 million in 2013 as the number of insured lawyers was slightly higher than 2013. The base premium for professional liability insurance coverage for Ontario lawyers was \$3,350 per lawyer, the same premium charged in 2013. The professional liability insurance program was essentially the same, year on year.

Professional Development & Competence ("PD&C")

Total PD&C revenues have increased from \$17.4 million in 2013 to \$22 million in 2014.

• Licensing Process revenues from lawyer and paralegal candidates have increased from \$9.4 million to \$13.5 million due to increased fees and a higher number of candidates as compared in the table below:

Candidate Registrants	2014	2013
Lawyer	2,333	2,211
Paralegal	1,558	1,600

1,984 lawyer candidates were licensed in 2014 compared to 1,995 in 2013. 1,156 paralegal candidates were licensed in 2014 compared to 1,344 in 2013.

The Society is undertaking a pilot that allows lawyer licensing candidates to either article or complete a Law Practice Program (LPP). The first LPP commenced in the fall of 2014. The total Licensing Process fee for 2014-2015, including the fees for the initial application, the Barrister and Solicitor Licensing Examinations and the Call to the Bar is \$4,710 compared to \$2,810 per candidate in 2013 for all fees associated with licensing.

The Law Foundation of Ontario approved grants totaling \$385,000 for the 2014 lawyer and paralegal Licensing Processes, 30% lower than 2013.

Paralegal licensing process revenues increased from \$2.3 million in 2013 to \$2.5 million.

Continuing Professional Development ("CPD") revenues have increased from \$8 million in 2013 to \$8.6 million. In 2014, the Society began charging a small fee for professionalism-only courses which were previously free which was the main factor in the decline in total registrations as analysed below. However the number of registrations for paid programs continues to increase.

Registration (all formats)	2014	2013
Paid programs	46,828	37,449
Free / nominal fee programs	16,635	51,244
Total number of registrants	63,463	88,693

One result of a review of the CPD requirement is the Accredited Provider framework commenced in 2014. So far, 58 other education providers have received approval to deliver professionalism content without the requirement for individual program accreditation as the number of service providers other than the Society continues to increase.

Investment Income

Total investment income has decreased from \$4.7 million to \$3.7 million. An increase in interest, dividends and realized gains was more than offset by unrealized gains / losses.

Expenses

Professional Regulation, Tribunals and Compliance

Total regulatory expenses of \$27.9 million have increased by \$1.7 million compared to last year. There were two primary components to the increase. 2014 was the first full year in the establishment of the Tribunal office and spending on outside counsel and expert witnesses within professional regulation totalled \$2 million compared to \$1.1 million in 2013.

The processing of files through the Intake, Complaints, Investigations and Discipline departments comprise a significant part of regulatory resources. Complaint trends have fluctuated in a fairly narrow band in recent years with 2014 showing a slight decline. Expenses and staff numbers in these areas were relatively static year-on-year.

Cost awards arising from the disciplinary process are occasionally awarded against the Society. At the current time, there are three matters which may lead to significant cost awards against the Society, although, in compliance with generally accepted accounting principles, there is insufficient certainty for these cost awards to be accrued at this time.

Professional Development & Competence

In 2014, total PD&C expenses of \$24.8 million exceeded the 2013 comparative by \$3.7 million.

The Licensing Process has been heavily engaged in the implementation of the Pathways Pilot Project which included the creation of a Law Practice Program as a path to licensing which consists of a four month training course at Ryerson University or the University of Ottawa followed by a four month work placement. 243 candidates are enrolled in the program. The development of Pathways was significantly under budget as the confirmation of the retainers for external assistance and scope of activities were finalized after the budget was approved and the Society was able to leverage existing content and services to support the new program.

In 2014, PD&C produced 143 continuing professional development programs including 85 live programs, 51 replays and 7 e-courses. This was 6 fewer programs than 2013 reflecting the decline in registrations.

The other relatively significant 2014 occurrence in PD&C was the streamlining of the Spot Audit program and the subsequent reduction in staffing by three employees.

Corporate Services

Corporate Services expenses, primarily comprising the Client Service Centre, Information Systems, Facilities, Finance and Human Resources, increased from \$21.9 million in 2013, to \$23.1 million in 2014. Severance costs arising from an operational review have exceeded the severance and contingency budget, somewhat offset by savings in other areas.

Office of General Counsel expenditures on counsel fees total \$588,000, exceeding budget and 2013 levels. In the current year, the Trinity Western University matter involved significant expenditures. Trinity Western University's application to the Ontario Divisional Court regarding the Society's decision not to accredit its law school is scheduled to be heard in June 2015.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses primarily comprises Policy, Equity & Public Affairs and bencher expenses and total \$8.6 million compared to \$8 million in 2013. The new office of Executive Director, Policy, Equity and Public Affairs was implemented during the year. Included in Convocation, policy and outreach expenses are payments to benchers during the year. In respect of remuneration, these payments totalled \$972,000 (2013 - \$836,000) and in respect of expense reimbursements, these payments totalled \$545,000 (2013 - \$557,000).

Services to Members and Public

These expenses, which mainly comprise the Law Society's Referral Service, payments to CANLII and the Members Assistance Plan, were relatively static at \$4.2 million compared to \$4.3 in 2013.

The Law Society Referral Service has transitioned away from being primarily a phone service. While a dedicated phone service remains in place for callers in crisis and others with special needs, most referrals will now be processed through a web-based service.

Balance Sheet

Current Assets and Liabilities

The most significant change in working capital is the increase in amounts due to LAWPRO of \$6.6 million, with premiums written exceeding payments from the E&O Fund. Deferred revenue decreased from \$13.2 million to \$11.4 million relating primarily to less future year membership fees received in 2014 as compared to 2013. The timing of these payments does not follow a pattern and is dependent on when members actually pay their fees.

Investment in Subsidiaries

Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of \$100. The LAWPRO investment is made up of two parts: the cost of the acquired share capital of \$4,997,000 plus contributed capital of \$30,645,000.

Portfolio Investments

Portfolio investments are shown at fair value of \$78.4 million compared to \$77.1 million in 2013. In 2014, an amount of \$1.5 million has been transferred from the E&O Fund portfolio as part of the transfer of surplus investment income to fund General Fund operations. Investments are held in the following funds:

(\$000's)	2014	2013
E&O Fund	29,067	29,576
Compensation Fund	34,243	33,000
General Fund	15,090	14,573
Total	78,400	77,149

Investments comprise Canadian equities (21%) and Canadian fixed income investments (79%). The portfolio is managed in compliance with the Society's investment policy. Fixed income investments are in a pooled fund of government, provincial and corporate bonds with an investment rating of BBB or better. Equity investments are in a pooled fund of diversified securities listed on the Toronto Stock Exchange.

Capital Assets

The decrease in capital assets to \$12.5 million from \$13.7 million reflects amortization for the period, offset by \$2.5 million in additions for projects such as the replacement of building infrastructure and the enterprise content management initiative. Capital assets are recorded at cost and are amortized over their useful lives according to the Society's capital asset policy. Capital asset additions are typically financed from the Society's Capital Allocation Fund.

Provision for Unpaid Grants

The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The Compensation Fund provision for unpaid grants (that is, the amount reserved) has risen to \$21.4 million from \$10 million in 2013. This increase is attributable to some large alleged defalcations on the part of certain licensees. The Compensation Fund describes a major defalcation as being over 35 claims arising from the conduct of one licensee and the Fund currently has two of these major defalcations. Most of these claims are still being evaluated and in some instances related investigations are still ongoing. Based on the advice of the actuary, however, the Fund balance remains sufficient to absorb the additional potential exposure. The paralegal Compensation Fund provision for unpaid grants comprises \$225,000 (2013 – \$98,000) of the total Compensation Fund provision for unpaid grants.

Unclaimed Trust Funds

Unclaimed trust funds continue to increase, now totalling \$3.7 million compared to \$3.2 million at the end of 2013. These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed. To date, monies returned to clients from the fund have been nominal. By statute, the Society administers the unclaimed trust funds, in perpetuity, and is entitled to reimbursement for administrative expenses to a limit of the annual income earned on funds held. Net income, if any, is available for transfer to the Law Foundation of Ontario ("LFO"). To date, administrative expenses have exceeded income and no transfers to the LFO have been made.

Other Trust Funds

Included in the notes to the financial statements, but not the Balance Sheet, is a reference to other trust funds held by the Society. The Society administers client funds for lawyers under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet as they are held temporarily and with a restricted administrative mandate. Money paid to the Society is held in trust until it is repaid to the appropriate payee or transferred to the Unclaimed Trust Funds. At the end of 2014, total funds held in trust amounted to \$2.4 million (2013 - \$2.8 million). The volume and value of balances depend on trusteeships at the time.

Schedule of Restricted Funds

Compensation Fund

Total Compensation Fund expenses have increased from \$10.1 million in 2013 to \$21.7 million because of an increase in the provision for lawyer unpaid grants. The 2013 amount was exceptionally low and, as noted above, the 2014 number is above the normal range.

Errors & Omissions Insurance Fund

Expenses in the E&O Fund have increased from \$102 million to \$111 million. The fund is reporting a deficit of \$5.2 million due to the use of \$5 million of the fund balance to mitigate the 2014 base insurance levy for lawyers.

County Libraries Fund

Funding of county libraries totalled \$7.5 million the same as 2013.

The Legal Information and Support Services Working Group reported to Convocation in October 2014 on the potential next steps in the evolution of legal information and library services. The information affirms the important role of courthouse libraries in the provision of legal information and library services and the maintenance of member competence. New appointments have been made to the Board of LibraryCo and a committee of board members is assessing transition requirements.

Other Restricted Funds

The other restricted funds balance is made up of the Repayable Allowance Fund, the Special Projects Fund and the Parental Leave Assistance Plan Fund ("PLAP").

The last grant from the J.S. Denison Fund, which assisted impoverished lawyers, candidates and their families, was approved by Convocation in November 2014. All money in the fund has now been distributed. The fund was established under the terms of the will of former Treasurer John Shirley Denison, KC. Born in 1870, Mr. Denison was called to the Bar in 1892, and practised in Toronto. He was Treasurer of the Society from 1944-47 and died in 1951.

PLAP provides financial assistance to lawyers in firms of five lawyers or fewer and do not have access to any other parental leave financial benefits. For the first time in 2014, a means test was implemented limiting eligibility to lawyers who have a net annual practice income of less than \$50,000. Under the program terms, the Society provided a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. Benefit payments totaled \$280,000 to 32 successful applicants (2013 - \$418,000 to 54 successful applicants).

Changes in Fund Balances

The 2014 budget planned to reduce the lawyer General Fund balance by \$446,000 but an operating surplus of \$1.5 million was achieved. Based on these actual results and after the budgeted transfer of \$1.5 million from the accumulated surplus investment income in the E&O Fund and \$6 million to the Capital Allocation Fund, the lawyer General Fund has decreased by \$2.9 million. The lawyer General Fund balance is now \$18.5 million. In 2015, \$641,000 of this accumulated balance has again been earmarked for the reduction of annual fees. The accumulated fund balance complies with Convocation's policy which, in brief, requires a minimum of two months and a maximum of three months operating expenses be maintained in the General Fund balance.

The 2014 budget planned to use \$313,000 from the paralegal General Fund balance, although based on actual results, the paralegal General Fund has increased by \$1.1 million. The paralegal General Fund balance is now \$3 million. In 2015, \$541,000 of this accumulated balance has again been earmarked for the reduction of annual fees.

The Compensation Fund balance of \$15.6 million for lawyers has decreased by \$10.2 million. The 2014 budget planned to reduce the lawyer Compensation Fund balance by \$707,000. In 2015, \$707,000 has again been earmarked for the reduction of Compensation Fund levies for lawyers. The accumulated fund balance complies with Convocation's policy which, in brief, requires an amount sufficient to provide for a minimum of three successive one-in-one-hundred-year events and a maximum of four such events to be maintained in the Fund balance.

The Compensation Fund balance of \$426,000 for paralegals has increased by \$7,000. The 2014 budget planned to reduce the paralegal Compensation Fund balance by \$40,000. In 2015, \$77,000 has been earmarked for the reduction of Compensation Fund levies for paralegals.

As noted above, the E&O Fund balance has decreased from \$65 million in 2013 to \$58 million in 2014. Surplus investment income of \$1.5 million accumulated in this fund had been earmarked for the reduction of lawyers' annual fees and was transferred in 2014. In 2015, another \$1.5 million has been earmarked for the reduction of lawyers' annual fees. \$2.5 million is expected to be drawn from the available surplus in the E&O Fund and applied to the 2015 insurance premium (2014 - \$5 million).

The Capital Allocation Fund has increased from \$4 million in 2013 to \$8.1 million in 2014. The three-year budget scenario approved by Convocation with the 2014 budget, included a provision of \$8.0 million, comprising \$6.0 million transferred from the General Fund balance to the Capital Fund and \$2.0 million from the existing Capital Fund balance, dedicated to the revitalization of the Society's information systems over the next three years. In 2014, the Society embarked on this plan to modernize its technology infrastructure, improving both its internal systems and its external-facing presence. The largest project, implementation of Enterprise Content Management, revolves around the concept of a single secure location to develop, collaborate, distribute and archive information internally using Microsoft SharePoint. Another relevant project is the Finance portlet, which allows licensees to view and pay their annual fees and initiate fee adjustments using the LSUC Portal. This was launched in December 2014.

Conclusion

A plan of action for setting strategic priorities has been approved by the Priority Planning Committee and includes the appointment of a Strategic Planning Steering Group of benchers and senior management. This Group will work with a consultant to develop the process and supporting materials for the Bencher Planning Session that will follow the next lawyer Bencher election.

The Society remains financially sound and is well placed for the future. The Society's accumulated fund balances total \$118 million of which \$12.5 million represents the book value of the Society's capital assets and \$36 million the value, at cost, of its investments in LAWPRO.

Deloitte.

Independent Auditor's Report

To the Members of The Law Society of Upper Canada Deloitte LLP 5140 Yonge Street Suite 1700 Toronto ON M2N 6L7 Canada

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We have audited the accompanying financial statements of The Law Society of Upper Canada, which comprise the balance sheet as at December 31, 2014, and the statements of revenue and expenses and change in fund balances and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of Upper Canada as at December 31, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants, Chartered Accountants

Licensed Public Accountants

April 23, 2015

Balance Sheet

Stated in thousands of dollars

Statea in thousands of dollars		
As at December 31	2014	2013
Assets		
Current Assets		
Cash	19,441	19,424
Short-term investments	20,280	19,687
Cash and short-term investments	39,721	39,111
Accounts receivable (note 8)	3,768	2,494
Prepaid expenses	2,141	1,621
Due from LawPRO (note 4)	-	3
Total current assets	45,630	43,229
Investment in subsidiaries (note 4)	35,642	35,642
Portfolio investments (note 6)	78,400	77,149
Capital assets (note 7)	12,549	13,653
Total Assets	172,221	169,673
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (note 8)	11,412	9,686
Deferred revenue	11,428	13,234
Due to LawPRO (note 4)	6,634	-
Total current liabilities	29,474	22,920
Provision for unpaid grants	21,433	10,003
Unclaimed trust funds (note 9)	3,712	3,195
Total Liabilities	54,619	36,118
Fund Balances		
General funds		
Lawyers	18,507	21,410
Paralegals	2,974	1,882
Restricted funds	2,7/3	1,002
Compensation - lawyers	15,618	25,829
Compensation - tawyers Compensation - paralegals	426	419
Errors and omissions insurance	58,305	65,042
Capital allocation		
-	8,096	3,953
Invested in capital assets	12,549	13,653
Other T. (1) T.	1,127	1,367
Total Fund Balances	117,602	133,555
Total Liabilities and Fund Balances	172,221	169,673

See accompanying notes
On behalf of Convocation

Treasurer

Co-Chairs, Audit & Finance Committee

Jaut S. Minor

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars For the year ended December 31

> 2014 2013

2014 2013 2014 2013 2014 2013

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	General Law		General Parale		Restric	ted Funds	То	tal
Revenues								
Annual fees	50,189	47,879	3,554	3,035	19,492	19,866	73,235	70
Insurance premiums and levies	-	-	-	-	104,415	102,428	104,415	102
Professional development and competence	18,774	14,458	3,273	2,939	-	-	22,047	17
Investment income (note 12)	925	1,074	77	85	2,733	3,520	3,735	4
Other (note 11)	5,917	5,599	557	466	597	236	7,071	6
Total revenues	75,805	69,010	7,461	6,525	127,237	126,050	210,503	201
Expenses								
Professional regulation, tribunals and compliance	25,817	24,263	2,094	1,924	-	-	27,911	26
Professional development and competence	22,794	19,252	2,055	1,813	-	-	24,849	21
Corporate services	21,143	20,254	1,931	1,640	-	-	23,074	21
Convocation, policy and outreach	7,958	7,524	595	500	-	-	8,553	8
Services to members and public	3,972	4,068	218	206	-	-	4,190	4
Allocated to Compensation Fund	(7,365)	(7,753)	(507)	(600)	-	-	(7,872)	(8
Restricted (schedule of restricted funds)	-	-	-	-	145,751	124,704	145,751	124
Total expenses	74,319	67,608	6,386	5,483	145,751	124,704	226,456	197
Surplus (Deficit)	1,486	1,402	1,075	1,042	(18,514)	1,346	(15,953)	3
Fund balances, beginning of year	21,410	6,710	1,882	847	110,263	122,208	133,555	129
nterfund transfers (notes 2 and 14)	(4,389)	13,298	17	(7)	4,372	(13,291)	-	
Fund balances, end of year	18,507	21,410	2,974	1,882	96,121	110,263	117,602	133

See accompanying notes

Statement of Cash Flows

Stated in thousands of dollars For the year ended December 31

	2014	2013
		-
Net inflow of cash related to the following activities		
Operating		
(Deficit) surplus	(15,953)	3,790
Items not affecting cash:		
Increase (decrease) in provision for unpaid grants	11,430	(672)
Amortization of capital assets	3,576	3,484
Loss on disposal of capital assets	-	37
	(947)	6,639
Net change in non-cash operating items:		
Accounts receivable	(1,274)	(345)
Prepaid expenses	(520)	(69)
Accounts payable and accrued liabilities	1,726	580
Due from LAWPRO	6,637	2,562
Deferred revenue	(1,806)	1,979
Fund contribution - unclaimed trusts	517	448
Cash from operating activities	4,333	11,794
Investing		
Portfolio investments (net)	(1,251)	(6,285)
Short-term investments (net)	(593)	(3,129)
Capital asset additions	(2,472)	(2,430)
Cash used by investing activities	(4,316)	(11,844)
Net inflow (outflow) of cash, during the year	17	(50)
Cash, beginning of year	19,424	19,474
Cash, end of year	19,441	19,424

See accompanying notes

Notes to Financial Statements, December 31, 2014

Stated in whole dollars except where indicated

1. Background

The Law Society of Upper Canada (the "Society") was founded in 1797 and incorporated in 1822 with the enactment of the Law Society Act.

The Law Society Act, section 4.1, states that it is a function of the Society to ensure that:

- All persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- The standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the Law Society Act, shall have regard to the following principles:

- The Society has a duty to maintain and advance the cause of justice and the rule of law;
- The Society has a duty to act so as to facilitate access to justice for the people of Ontario;
- The Society has a duty to protect the public interest;
- The Society has a duty to act in a timely, open and efficient manner;
- Standards of learning, professional competence and professional conduct for members and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

In 2014, the Modernizing Regulation of the Legal Profession Act, 2013, which amended the Law Society Act, increased the number of paralegal benchers from two to five and established the Law Society Tribunal, including the provision for the appointment of an independent Tribunal Chair and two bencher vicechairs.

At December 31, 2014, the total number of lawyers and paralegals entitled to provide legal services in Ontario were 47,400 and 6,700 respectively. The primary sources of revenues are member annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

The Society is not subject to federal or provincial income taxes.

2. Nature of Financial Statements

These financial statements present the financial position and operations of the Society and include the General Fund and a number of special purpose funds restricted by the Law Society Act or Convocation.

Subsidiaries and Related Corporation

The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO"), and LibraryCo Inc. ("LibraryCo") and a related corporation, the Law Society Foundation. These entities have not been consolidated or included in the Society's financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

General Fund

The General Fund accounts for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2014, the lawyer fund balance was \$18,507,000 (2013 - \$21,410,000). The paralegal fund balance was \$2,974,000 (2013 - \$1,882,000).

The Society's policy is to maintain the General Fund balance at no less than two and no more than three months of General Fund budgeted expenses.

If the General Fund balance exceeds three months of budgeted General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

If the General Fund balance is less than two months of budgeted General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the General Fund balance is more than two months of budgeted General Fund expenses and less than three months of budgeted General Fund expenses, Convocation may appropriate funds from the General Fund Balance for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

Restricted Funds

Compensation Fund

The Society maintains the Compensation Fund pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a member, in connection with the member's professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by members' annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

During 2014, Convocation approved new Guidelines for the determination of grants from the Compensation Fund replacing the existing Guidelines for lawyers and for paralegals. Their purpose is to structure the exercise of the Society's discretion and promote consistency in determining grants from the Compensation Fund. The new Guidelines were written to be clearer and more accessible but the underlying principles used to determine grants did not change.

The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of three successive 99th percentile aggregate claim scenarios (one-in-one-hundred-year event) and a maximum of four such events. The estimated amount of aggregate claims in the 99th percentile is to be actuarially reviewed at least every three years.

If the Lawyer Compensation Fund balance exceeds four one-in-one-hundred year events, Convocation shall utilize some or all of the excess for the following:

- Mitigation of the Lawyer Compensation Fund levy for the next fiscal year;
- Annual mitigation of the Lawyer Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the Lawyer Compensation Fund balance is less than three one-in-one-hundred-year events, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the Lawyer Compensation Fund balance is more than three one-in-one-hundred-year events and less than four one-in-one-hundred-year events Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events;
- Leave the fund balance at its current balance for the upcoming fiscal year.

The General Fund allocates certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigation and discipline functions of the Society to the Compensation Fund. In 2014, these amounted to \$7,872,000 (2013 – \$8,353,000). At December 31, 2014, the lawyer share of the fund balance was \$15,618,000 (2013 – \$25,829,000) and the paralegal share of the fund balance was \$426,000 (2013 – \$419,000).

Errors and Omissions Insurance Fund

The Errors and Omissions Insurance Fund ("E&O Fund") accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

Under the offer for 2014, \$5 million was drawn from the available surplus in the E&O Fund built up in prior years and applied to the 2014 insurance premium (2013 - \$nil).

To the extent that transaction-based levies exceed anticipated amounts, the excess remains in the E&O Fund and is applied as premiums in future years. In the event of a shortfall, the shortfall is met by additional funds from the E&O fund balance. The net 2014 contribution to the insurance program was \$1,458,000. The net 2013 contribution to the E&O Fund balance was \$334,000.

There is also a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2014 and 2013.

At December 31, 2014, the E&O Fund balance was \$58,305,000 (2013 - \$65,042,000) of which \$35,642,000 (2013 – \$35,642,000) comprises the Society's investment in LAWPRO.

Capital Allocation Fund

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital assets. These include buildings and major equipment including computers. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. During 2014, \$6,000,000 was transferred to the Capital Allocation Fund from the lawyer General Fund to finance information systems upgrades over the next three years. At December 31, 2014, the balance was \$8,096,000 (2013 - \$3,953,000).

Invested in Capital Assets Fund

The Invested in Capital Assets Fund records transactions related to the Society's capital assets, specifically acquisitions, amortization and disposals. At December 31, 2014, the balance was \$12,549,000 (2013 -\$13,653,000), representing the net book value of the Society's capital assets.

County Libraries Fund

The County Libraries Fund records transactions related to the Society's support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2014 and 2013 was \$nil.

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2014, the balance was \$300,000 (2013 - \$316,000).

The J. Shirley Denison Fund, an endowment fund, provided relief and assistance to lawyers, candidates in the lawyer licensing process and former lawyers who found themselves in difficult financial circumstances. Contributions for endowments were recognized as revenues. At December 31, 2014, the balance was \$nil (2013 – \$46,000) and the Fund is closed.

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2014 was \$460,000 (2013 - \$758,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program ("PLAP") and is funded by lawyers' fees. The PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. At December 31, 2014, the Fund balance was \$367,000 (2013 - \$247,000).

3. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-forprofit organizations set out in the CPA Canada Handbook - Accounting.

Financial instruments

The Society's financial assets and financial liabilities are classified and measured as follows:

Asset / Liability	Measurement
Cash and short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Other amounts noted on the Balance Sheet such as prepaid expenses, capital assets, investment in subsidiaries, deferred revenue, and the provisions for unpaid grants/claims, are not financial instruments. Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed income and Canadian equity pooled funds. Transaction costs are expensed as incurred. The fair value of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate their carrying values due to their nature or capacity for prompt liquidation.

There has been no change in risk exposures from the previous period.

Interest rate risk

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society's investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 5 years. The Society has no interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

Market risk

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed through compliance with the Society's investment policy which requires a diversified portfolio of government bonds, corporate bonds and Canadian equities meeting specified quality requirements.

Credit risk

Credit risk is the possibility that other parties may default on their financial obligations. At year end, the maximum exposure of the Society to credit risk in cash and short and long-term fixed income investments was \$101,642,000 (2013 - \$101,776,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions and commercial paper with investment grade ratings.

At year end, the maximum exposure of the Society to credit risk in accounts receivable was \$3,768,000 (2013 - \$2,494,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all underlying long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

Cash and short-term investments

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

Portfolio investments

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

Capital assets

Capital assets are presented at cost net of accumulated amortization. For purposes of calculating the first year's amortization, all capital assets are deemed to be acquired, put into service, or completed on July 1. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

> **Buildings** 30 years **Building improvements** 10 years

Furniture, equipment and computer

hardware and software 3 to 5 years

Revenue recognition

Annual member fees, premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year. Premium revenues are recognized on a pro rata basis over the term of the respective insurance policies. Premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue. Transaction-based levies are recorded as revenues in the year received.

Professional development & competence, and other revenues and realized investment income/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees and premiums receivable are recorded as accounts receivable on the balance sheet, net of any required provision for doubtful amounts.

Grant - related balances

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a \$150,000 limit per applicant. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per applicant. The Compensation Fund expense represents a provision for unpaid grants, administrative expenses and expenses allocated from the General Fund.

Provisions for unpaid grants are recorded as liabilities on the balance sheet. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs net of recoveries. Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 0.86% (2013 – 1.28%).

Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items. There have not been any significant changes to the collections in the current year.

Volunteer services

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, have ex-officio status by virtue of their office or past service as elected benchers or Treasurers, or qualify as emeritus benchers. In addition, the Paralegal Standing Committee is responsible for developing policy related to paralegal regulation for Convocation's approval. With effect from when they took office in April 2014, licensed paralegals elect five paralegals as benchers and members of the Paralegal Standing Committee.

Elected and ex-officio benchers are only eligible for remuneration after contributing 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian accounting standards for not-forprofit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The valuation of liabilities, unpaid grants and unpaid claims anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

4. Investment in Subsidiaries

Investment in the Society's subsidiaries is recorded at cost:

	2014	2013
LAWPRO	35,642,000	35,642,000
LibraryCo	100	100
Total investment in subsidiaries	35,642,100	35,642,100

LAWPRO

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period.

Paralegals obtain this form of coverage through independent insurance companies. In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.

The \$5 million in capital stock of LAWPRO comprises 30,000 common shares of par value of \$100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares. In the period from 1995 to 1997, the Society transferred a net amount of \$30.6 million in capitalization funding as contributed surplus to LAWPRO.

As required by Canadian generally accepted accounting principles, LAWPRO, a publicly accountable entity, uses International Financial Reporting Standards ("IFRS").

There are therefore significant differences in the accounting policies of LAWPRO and the Society, but because the two organizations are so different and LAWPRO is not consolidated, variances arising from the different financial reporting framework adopted by the two organizations have not been reconciled.

Summarized balance sheet of LAWPRO:

(\$000's)	2014	2013
Total assets	681,909	645,436
Total liabilities	473,284	455,561
Total shareholder's equity	208,625	189,875
Total liabilities and shareholder's equity	681,909	645,436

Summarized statement of income of LAWPRO for the year ended December 31:

(\$000's)	2014	2013
Revenue	143,051	124,274
Expenses	120,080	116,441
Income before taxes	22,971	7,833
Income tax expense	5,911	1,900
Net income	17,060	5,933
Other comprehensive income net of tax	1,690	12,653
Comprehensive income	18,750	18,586

Summarized statement of cash flows of LAWPRO for the year ended December 31:

(\$000's)	2014	2013
Net cash inflow from operating activities	12,109	20,413
Net cash outflow from investing activities	(9,306)	(24,265)
Cash and cash equivalents, beginning of year	14,525	18,377
Cash and cash equivalents, end of year	17,328	14,525

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society \$110,872,000 (2013 - \$102,093,000) for premiums during the year. LAWPRO contributed \$231,000 to a wellness program provided by the Society to its members (2013 -\$210,000). Included in the Society's financial statements are amounts due to LAWPRO of \$6,634,000 (2013 - due from of \$3,000).

LibraryCo

LibraryCo, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LibraryCo was incorporated under the Business Corporations Act (Ontario) in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association ("TLA") and 75 are held by the County and District Law Presidents' Association ("CDLPA"). The Society may appoint up to four directors, CDLPA may appoint up to three directors and TLA may appoint one director. The investment is recorded at cost on the Society's Balance Sheet.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized balance sheet of LibraryCo:

(\$000's)	2014	2013
Total assets	740	909
Total liabilities	98	26
Total share capital and fund balances	642	883
Total liabilities, share capital and fund balances	740	909

Summarized statement of income of LibraryCo for the year ended December 31:

(\$000's)	2014	2013
Total revenue	8,049	8,230
Total expenses	8,290	8,318
Deficit	241	88

Summarized statement of cash flows of LibraryCo for the year ended December 31:

(\$000's)	2014	2013
Net cash outflow from operating activities	201	(98)
Cash and short-term investments, beginning of year	864	962
Cash and short-term investments, end of year	663	864

The Society administers the operations of Library Co under an administrative services agreement. The total amount billed by the Society was \$589,000 (2013 - \$591,000) for administrative services and certain other services and publications. Included in the Society's accounts receivable are amounts due from LibraryCo of \$1,000 (2013 - \$8,000).

5. Related Corporation

The Law Society Foundation ("LSF") is regarded as a related corporation, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society's accounts receivable are amounts due from the LSF of \$99,000 (2013 - \$30,000).

6. Portfolio Investments

(\$000's)	2014	2013
Debt securities	61,924	62,665
Canadian equities	16,476	14,484
Total portfolio investments	78,400	77,149

At December 31, 2013 the Society's debt securities were invested in individual securities. In June 2014 these were transferred to a pooled fund. The debt securities have effective interest rates and maturity dates as follows:

	2014	2013
Effective interest rates (%)	1.1 - 2.8	1.4 - 3.1
Maturity dates (years)	1 - 5	1 - 5

7. Capital Assets

(\$000's)		2014	
_	Cost	Accumulated Amortization	Net
Land and buildings	25,395	21,622	3,773
Building improvements	23,368	16,591	6,777
Furniture, equipment and computer hardware			
and software	9,183	7,184	1,999
Total capital assets	57,946	45,397	12,549
(\$000's)		2013	
	Cost	Accumulated	Net
		Amortization	
Land and buildings	25,395	21,071	4,324
Building improvements	22,994	15,160	7,834
Furniture, equipment and computer hardware			
and software	7,901	6,406	1,495
Total capital assets	56,290	42,637	13,653

8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is \$258,000 in government remittances, primarily sales taxes (2013 -\$934,000).

The accounts receivable balance comprises:

(\$000's)	2014	2013
Accounts receivable	19,186	15,352
Allowance for doubtful accounts	15,418	12,858
Accounts receivable – net	3,768	2,494

The allowance for doubtful accounts mainly relates to monitoring and enforcement receivables and annual fees receivable.

9. Unclaimed Trust Funds

Section 59.6 of the Law Society Act permits a member who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$3,712,000 (2013 - \$3,195,000).

10. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2014, total funds held in trust amount to \$2,449,000 (2013 - \$2,760,000).

11. Other Revenues

Included in other revenues are late fees, catering, monitoring & enforcement revenues, Ontario Reports, the LibraryCo administration fee and other miscellaneous revenue.

12. Investment Income

Investment income is summarized below:

(\$000's)	2014	2013
Dividends and interest	2,749	2,555
Realized gains	1,542	608
Unrealized (losses) gains	(556)	1,516
Total	3,735	4,679

13. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the total remuneration of elected and ex-officio benchers, lay benchers and Paralegal Standing Committee members during the year of \$972,000 (2013 - \$836,000). The total expense reimbursements of the elected and ex-officio benchers, lay benchers and Paralegal Standing Committee members during the year was \$544,000 (2013 - \$557,000). The Treasurer's honorarium for the year was \$185,000 (2013 – \$176,000).

14. Interfund Transfers

During the year the following interfund transfers took place:

- \$2,472,000 transferred from the Capital Allocation Fund to the Invested in Capital Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;
- \$12,000 transferred from the County Libraries Fund to the lawyer General Fund;
- \$17,000 transferred from the lawyer General Fund to the paralegal General Fund;
- Transfer of \$100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2014 budget to fund the Repayable Allowance Program in the Licensing Process;
- Transfer of \$298,000 from the Special Projects Fund to the lawyer General Fund;
- Transfer of \$1,500,000 from the E&O Fund to the lawyer General Fund as provided in the 2014 budget representing surplus investment income;
- Transfer of \$6,082,000 from the lawyer General Fund to the Capital Allocation Fund as provided in the 2014 budget to fund information technology projects.

15. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elect to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2014 amounted to \$2,526,000 (2013 -\$2,495,000).

16. Commitments

The Society is committed to monthly lease payments for property under leases having various terms up to April 2020. Aggregate minimum annual payments to the expiry of the leases are as follows:

2015	\$955,000
2016	\$922,000
2017	\$923,000
2018	\$926,000
2019	\$928,000
Thereafter	\$309,000

In 2011, the Society renewed a five-year commitment in the annual amount of \$138,000 to the Law Commission of Ontario to support its operations.

17. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Except as set out in the next paragraph, management is of the opinion, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

Members failing to meet their professional and ethical obligations are subject to the Society's regulatory process. Regulatory proceedings may result in cost awards against the Society. At the end of 2014, in management's judgement, there is at least a reasonable possibility that a contingent liability relating to one or more cost awards may exist but the amount of any losses cannot be reliably estimated. From its regulatory proceedings, the Society has determined that the ultimate settlement for costs awards could range from nil to approximately \$5 million. No amount has been recorded in the financial statements.

THE LAW SOCIETY OF UPPER CANADA Stated in thousands of dollars For the year ended December 31 Schedule of Restricted Funds

					2014				2013
	Land to the same of	Frank	Tomo on one	Comito	Loscoto		244.02	F-0421	F-040
	Compensar		omissions	allocation	in capital	libraries	restricted	Restricted	100
	Lawyer	Paralegal	insurance		assets			spunj	
Fund balances, beginning of year	25.829	419	65.042	3.953	13.653	1	1.367	110.263	122.208
Revenues									
Annual fees	8,850	654	1	2,077	1	7,511	400	19,492	19,866
Insurance premiums and levies	ı	1	104,415	1	1	1	1	104,415	102,428
Investment income	1,517	1	1,216	'	1	1	1	2,733	3,520
Other	483	4	1	110	1	1	1	297	236
Total revenues	10,850	829	105,631	2,187		7,511	400	127,237	126,050
Expenses									
Allocated expenses	7,365	507	1	1	1	1	1	7,872	8,353
Provision for grants	13,091	144	1	•	1	1	1	13,235	1,147
Direct expenses	909	1	110,868	1,654	3,576	7,499	442	124,644	115,204
Total expenses	21,061	651	110,868	1,654	3,576	7,499	442	145,751	124,704
(Deficit) Surplus	(10,211)	7	(5,237)	533	(3,576)	12	(42)	(18,514)	1,346
Interfund transfers	1	1	(1,500)	3,610	2,472	(12)	(198)	4,372	(13,291)
Fund balances, end of year	15,618	426	58,305	8,096	12,549	1	1,127	96,121	110,263

View the full 2014 annual report, at: www.annualreport.lsuc.on.ca

